

Insurance Committee
Public Hearing
February 21, 2023
Testimony on Raised House Bill 6712

Thank you for the opportunity to provide public testimony on Raised House Bill 6712, “An Act Concerning the Removal of Assessments on the Connecticut Health Insurance Exchange.” I would like to testify in strong support of the bill and its efforts. As you may be aware, I have testified at health insurance rate hearings held by the insurance department over the last several years. Like many others, I have highlighted the impact of taxes and fees on insurance premiums. In most legislatures this discussion consistently falls on deaf ears, and Connecticut should be commended for looking at this issue.

I am J.P. Wieske and I represent a number of organizations and insurers including the Health Benefit Institute, and the Council for Affordable Health Coverage. All of whom support the goals of this legislation to benefit consumers through lower insurance premiums.

By way of background, I am the former Deputy Insurance Commissioner for the state of Wisconsin. In that role and with the direction of the Insurance Commissioner, I supervised the agency’s operations including the rate review function for all lines of insurance, licensing, legislative and financial. I would note for reference that Wisconsin has more domestic insurers licensed in the state and more total (domestic and foreign) insurers licensed in the state. I was also active at the National Association of Insurance Commissioners where I chaired a number of committees.

My testimony today will focus narrowly on Section 4 of the bill, related to the proposed decrease in the premium tax. In short, enacting this proposal will have three main impacts.

- 1. Lower premium taxes will lower premiums for consumers.**
- 2. Lower premium taxes will increase insurance coverage in all lines of insurance.**
- 3. Lower premium taxes will help make insurers domiciled in Connecticut more competitive leading to more Connecticut jobs.**

Impact on Consumer Premiums

Premium taxes artificially raise the cost of insurance for consumers by increasing insurer costs. These costs are necessarily passed on. We know this to be true since insurers are required to file their rates with the insurance department and it is a common factor used in rate development for all insurance lines.

And it is important to note that premium taxes are not used to regulate the industry, rather these taxes are collected to raise revenue for the general fund. Both taxes and fees on insurance consistently exceed any cost to regulate. Looking to insurance as a piggy bank for the general fund, creates an unfortunate burden on consumers who are looking to insurance as financial protection.

Premium taxes negatively impact insurance in two ways. First, it forces them to increase premiums to cover the cost. These higher premiums result in fewer insured persons and less comprehensive insurance coverage. For consumers, it forces them to take on more risk by either increasing deductibles or forgoing coverage. This further impacts premium rates by exacerbating adverse selection issues – the more expensive the coverage the less likely low risk individuals purchase insurance which makes the overall risk pool more expensive.

I highlighted these issues in my prior testimony for HBI at the recent health insurance rate hearing:

Assessments and taxes on insurance are used as a general source of revenue. As a result, assessments continue to be a major driver in overall insurance costs for individuals and small businesses. 2021 data acquired from the health carriers shows that fully-insured plans incur \$359.6 million in assessments, taxes, and fees annually; self-insured plans incur \$74 million annually. This results in a per member cost in the fully insured market of \$591 annually, and \$54 annually for the self-insured market.

For context, Connecticut citizens who are fully-insured in 2022 will pay \$202 million assessments on top of their health insurance costs. Those assessments are used to pay for many initiatives in Connecticut including the operations for the Health Insurance Exchange (\$32 million), Access Health; programs in the State Public Health Department (\$11.8 million); and Health and Welfare Assessment/Immunization program (\$71 million). While these goals are noble and certainly have industry support, wouldn't general revenue be better allocated rather than taxing a product you'd like consumers to buy?

However, it is important to note that premium taxes impact all lines of insurance.

Increased Insurance Coverage

As we highlighted above, increasing the cost of insurance causes individuals to purchase less coverage. Certainly, states have used this in raising “sin” taxes. on products like cigarettes to discourage their use. By making a product more expensive, consumers are expected to use it less. Premium taxes work exactly the same way.

In looking at current NAIC data on the Connecticut market¹, a number of patterns emerge. In 2014, written health insurance premiums increased dramatically reflecting the start of ACA subsidies, and increased coverage levels. We know this to be a reflection of not just increased rates but also from increased coverage. Similarly, the data appears to show significantly increased total premiums written as insurers adjusted rates from the last time the premium tax was decreased.

A full economic study would be needed to provide a full picture of the impact, but the truth of the matter is insurance premiums with their heavily regulated rates, will be required to lower premiums to reflect the lower premium taxes.

Supporting Connecticut Insurance Jobs

Lowering premium taxes will also make Connecticut companies more competitive outside of Connecticut. This is due to state retaliatory tax rules. In short, states will impose the higher of their taxes and fees or Connecticut's taxes and fees on a Connecticut domiciled insurer. The higher Connecticut's taxes and fees are, the less competitive a Connecticut company is in another state.

The NAIC annually publishes a retaliatory tax guide² to assist states. While the calculation of retaliatory taxes and fees is complicated – indeed it is done on insurer-by-insurer basis. It is clear a number of states have similar or lower premium taxes from Wisconsin that does not have a premium tax on most domestic insurers to states competing with Connecticut to gain insurance companies like Nebraska, Iowa Ohio who have lower premium tax rates.

In my former role in the Wisconsin Office of Commissioner of Insurance, I would certainly highlight our lack of premium tax to insurers who would be looking to re-domicile to another state. I am also aware of a number of insurers who have moved their domicile from one state to another, with premium taxes being one of several factors.

Closing

I would like to express my appreciation for this proposed legislation. Too often legislatures have ignored the impact of taxes and fees on the purchase of financial protection products like insurance. This bill will lead to lower premium rates, better insurance coverage, and help protect Connecticut jobs.

Thank you again for providing an opportunity to comment. Please do not hesitate to contact me if you have further questions at jpwieske@horizondc.com or (920) 784-4486.

Sincerely

¹ <https://content.naic.org/sites/default/files/publications-key-facts-market-trends-connecticut.pdf>

² <https://content.naic.org/sites/default/files/publication-ret-zu-retaliation-volume-one.pdf>

A handwritten signature in dark ink, appearing to read 'JP Wieske', with a long horizontal flourish extending to the right.

JP Wieske
Vice-President State Affairs